

**CITY OF AVOCA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2014

TABLE OF CONTENTS

	<u>Page</u>
Officials	3
Independent Auditor's Report	4 - 7
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statements:	
State of Activities and Net Assets - Cash Basis	A 9 - 10
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 11 - 12
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 13
Notes to Financial Statements	15 - 22
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	24 - 25
Notes to Required Supplementary Information - Budgetary Reporting	26
Required Supplementary Information:	
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Non-major Governmental Funds	1 28 - 29
Schedule of Indebtedness	2 30 - 31
Bond and Note Maturities	3 32 - 33
Schedule of Receipts by Source and Disbursements By Function - All Governmental Fund Types	4 34
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36 - 38
Schedule of Findings	39 - 42

CITY OF AVOCA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Before January 2014		
Jennie Maasen	Mayor	January 2014
Jerry Espeseth	Mayor Pro-Tem/Council Member	January 2014
Fred Miller III	Council Member	January 2016
John Butcher	Council Member	January 2014
Roxanne Plymale	Council Member	January 2014
Sandy Petersen	Council Member	January 2016
Clint Fichter	City Manager	Indefinite
Teresa Hoepner	City Clerk	Indefinite
Teresa Hoepner	City Treasurer	Appointed yearly
David Larson	City Attorney	Indefinite
After January 2014		
Jennie Maasen	Mayor	January 2016
Fred Miller III	Mayor Pro-Tem/Council Member	January 2016
Steven Kerr	Council Member	January 2018
David McCain	Council Member	January 2018
Roxanne Plymale	Council Member	January 2018
Sandy Petersen	Council Member	January 2016
Clint Fichter	City Manager	Indefinite
Teresa Hoepner	City Clerk	Indefinite
Teresa Hoepner	City Treasurer	Appointed yearly
David Larson	City Attorney	Indefinite

MUXFELDT

ASSOCIATES, CPA, P.C.

Certified Public Accountant

January 8, 2015

Independent Auditor's Report

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

305 W. High Street
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com
firm@muxfeldt-cpa.com

Licensed In:

Iowa
Missouri

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Avoca, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes that determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Continued . . .

January 8, 2015

Page Two

Auditor's Responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Avoca as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

The financial statements referred to above include only the primary government of the City of Avoca, which consists of all funds, organizations, agencies, boards, commissions, and authorities that comprise the City's legal entity. The financial statements do not include the financial statements of the City's legally separate component units, which U.S. generally accepted accounting principles require to be reported with the financial statements of the City's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly the financial position of the reporting entity of the City of Avoca as of and for the year ended June 30, 2014, and the changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Continued . . .

January 8, 2015

Page Three

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinion is not modified with respect to this matter.

Other Matters -- Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Avoca's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the years ended June 30, 2011 and 2013 (which are not presented herein) and expressed an unqualified opinion on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The City has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basis financial statements.

Continued. . .

January 8, 2015
Page Four

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated January 8, 2015 on my consideration of the City of Avoca's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Avoca's internal control over financial reporting and compliance.

Musfeldt Associates, CPA, P.C.

BASIC FINANCIAL STATEMENTS

CITY OF AVOCA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

			<u>Program Receipts</u>	
		<u>Charges for</u>	<u>Operating Grants,</u>	<u>Capital Grants,</u>
	<u>Disbursements</u>	<u>Services</u>	<u>Contributions</u>	<u>Contributions</u>
			<u>and Restricted</u>	<u>and Restricted</u>
			<u>Interest</u>	<u>Interest</u>
Functions / Programs:				
Governmental activities:				
Public safety	\$ 311,429	90,234	1,397	-0-
Public works	621,825	112,745	-0-	-0-
Cultures and recreation	699,179	500,277	1,710	-0-
Community and economic development	616,854	-0-	-0-	-0-
General government	337,357	14,698	3,500	-0-
Debt service	520,533	-0-	-0-	-0-
Capital projects	1,420,588	-0-	31,976	-0-
Total governmental activities	4,527,765	717,954	38,583	-0-
Business type activities:				
Water	246,750	376,672	-0-	-0-
Sewer	127,445	282,375	-0-	-0-
Total business type activities	374,195	659,047	-0-	-0-
Total	\$ 4,901,960	1,377,001	38,583	-0-
Property taxes levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted investment earnings				
Miscellaneous				
Sale of assets				
Note proceeds				
Transfers				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets, beginning of year				
Cash basis net assets, end of year				
Cash basis net assets				
Expendable:				
Streets				
Urban renewal				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

EXHIBIT A

<u>Net (Disbursements), Receipts and Changes in Net Assets</u>			
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$	(219,798)	-0-	(219,798)
	(509,080)	-0-	(509,080)
	(197,192)	-0-	(197,192)
	(616,854)	-0-	(616,854)
	(319,159)	-0-	(319,159)
	(520,533)	-0-	(520,533)
	<u>(1,388,612)</u>	<u>-0-</u>	<u>(1,388,612)</u>
	(3,771,228)	-0-	(3,771,228)
	-0-	129,922	129,922
	-0-	154,930	154,930
	<u>-0-</u>	<u>284,852</u>	<u>284,852</u>
	497,485	-0-	497,485
	72,442	-0-	72,442
	934,605	-0-	934,605
	193,095	-0-	193,095
	14,773	4,192	18,965
	9,363	-0-	9,363
	110,473	-0-	110,473
	1,434,370	-0-	1,434,370
	473,302	(473,302)	-0-
	<u>3,739,908</u>	<u>(469,110)</u>	<u>3,270,798</u>
	(31,320)	(184,258)	(215,578)
	<u>1,790,206</u>	<u>659,379</u>	<u>2,449,585</u>
\$	<u>1,758,886</u>	<u>475,121</u>	<u>2,234,007</u>
\$	87,341	-0-	87,341
	184,419	-0-	184,419
	(4,476)	-0-	(4,476)
	1,071,260	35,094	1,106,354
	420,342	440,027	860,369
\$	<u>1,758,886</u>	<u>475,121</u>	<u>2,234,007</u>

See notes to financial statements.

CITY OF AVOCA

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	<u>Special Revenue</u>		
	General	Urban Renewal	Debt Service
		Tax Increment	
Receipts:			
Property tax	\$ 219,549	\$ -0-	\$ 72,442
Tax increment financing	-0-	934,605	-0-
Other city tax	-0-	-0-	-0-
Licenses and permits	14,659	-0-	-0-
Use of money and property	6,441	-0-	-0-
Intergovernmental	3,000	-0-	-0-
Charges for services	637,226	-0-	-0-
Special assessments	2,350	-0-	-0-
Miscellaneous	7,614	-0-	-0-
Total receipts	<u>890,839</u>	<u>934,605</u>	<u>72,442</u>
Disbursements:			
Operating:			
Public safety	311,429	-0-	-0-
Public works	493,870	127,955	-0-
Culture and recreation	695,195	3,985	-0-
Community and economic development	26,408	590,446	-0-
General government	337,356	-0-	-0-
Debt service	-0-	-0-	520,533
Capital projects	-0-	-0-	-0-
Total disbursements	<u>1,864,258</u>	<u>722,386</u>	<u>520,533</u>
Excess (deficiency) of receipts over (under) disbursements	(973,419)	212,219	(448,091)
Other financing sources (uses):			
Sale of assets	107,473	-0-	-0-
Note proceeds	-0-	308,023	-0-
Operating transfers in	773,030	96,530	443,614
Operating transfers out	(159,282)	(815,490)	-0-
Total other financing sources (uses)	<u>721,221</u>	<u>(410,937)</u>	<u>443,614</u>
Net change in cash balances	(252,198)	(198,718)	(4,477)
Cash balances, beginning of year	<u>467,952</u>	<u>203,719</u>	<u>-0-</u>
Cash balances, end of year	\$ <u>215,754</u>	\$ <u>5,001</u>	\$ <u>(4,477)</u>
Cash Basis Fund Balances			
Restricted for:			
Urban renewal purposes	\$ -0-	\$ 5,001	\$ -0-
Debt service	-0-	-0-	(4,477)
Streets	-0-	-0-	-0-
Other purposes	-0-	-0-	-0-
Unassigned	215,754	-0-	-0-
Total cash basis fund balances	\$ <u>215,754</u>	\$ <u>5,001</u>	\$ <u>(4,477)</u>

See notes to financial statements.

EXHIBIT B

South School Improvement Capital Project		Other Non-major Governmental Funds		Total
\$	-0-	\$	\$ 127,337	\$ 419,328
	-0-		-0-	934,605
	-0-		409,885	409,885
	-0-		-0-	14,659
	-0-		8,317	14,758
	-0-		31,976	34,976
	-0-		1,189	638,415
	-0-		-0-	2,350
	-0-		1,710	9,324
	-0-		580,414	2,478,300
	-0-		-0-	311,429
	-0-		-0-	621,825
	-0-		-0-	699,180
	-0-		-0-	616,854
	-0-		-0-	337,356
	-0-		-0-	520,533
	750,721		669,867	1,420,588
	750,721		669,867	4,527,765
	(750,721)		(89,453)	(2,049,465)
	-0-		3,000	110,473
	740,084		386,263	1,434,370
	-0-		780,741	2,093,915
	-0-		(645,841)	(1,620,613)
	740,084		524,163	2,018,145
	(10,637)		434,710	(31,320)
	10,637		1,107,898	1,790,206
\$	-0-	\$	\$ 1,542,608	\$ 1,758,886
\$	-0-	\$	\$ -0-	\$ 5,001
	-0-		-0-	(4,477)
	-0-		87,341	87,341
	-0-		1,455,267	1,455,267
	-0-		-0-	215,754
\$	-0-	\$	\$ 1,542,608	\$ 1,758,886

CITY OF AVOCA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for services	\$ 376,672	\$ 282,375	\$ 659,047
Special assessment	-0-	-0-	-0-
Miscellaneous	-0-	-0-	-0-
Total receipts	<u>376,672</u>	<u>282,375</u>	<u>659,047</u>
Operating disbursements:			
Business type activities	<u>246,750</u>	<u>127,445</u>	<u>374,195</u>
Total disbursements	<u>246,750</u>	<u>127,445</u>	<u>374,195</u>
Operating income	129,922	154,930	284,852
Non-operating receipts:			
Interest	752	3,440	4,192
Miscellaneous	-0-	-0-	-0-
Total non-operating receipts	<u>752</u>	<u>3,440</u>	<u>4,192</u>
Excess of receipts over disbursements	130,674	158,370	289,044
Other financing sources (uses):			
Operating transfer in	-0-	-0-	-0-
Operating transfer out	<u>(172,982)</u>	<u>(300,320)</u>	<u>(473,302)</u>
Other financing sources (uses)	<u>(172,982)</u>	<u>(300,320)</u>	<u>(473,302)</u>
Net change in cash balance	(42,308)	(141,950)	(184,258)
Cash balances, beginning of year	<u>149,955</u>	<u>509,424</u>	<u>659,379</u>
Cash balances, end of year	\$ <u>107,647</u>	\$ <u>367,474</u>	\$ <u>475,121</u>
Cash Basis Fund Balances			
Reserve for utility deposits	\$ 35,094	\$ -0-	\$ 35,094
Unrestricted	<u>72,553</u>	<u>367,474</u>	<u>440,027</u>
Total cash basis fund balances	\$ <u>107,647</u>	\$ <u>367,474</u>	\$ <u>475,121</u>

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(1) Summary of Significant Accounting Policies

The City of Avoca is a political subdivision of the State of Iowa and located in Pottawattamie County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general administrative services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Avoca has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board and commissions: Pottawattamie County Assessor's Conference Board, City Assessor's Conference Board and Pottawattamie County Emergency Management Commission.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of inter-fund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges from services.

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in the following categories:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provision or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include: 1) charges to customers or applicants whose purchase, or use directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(11) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation - Continued

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for special purposes as determined by City Council such as transfers to debt service and capital projects.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Debt Service Fund is utilized to account for the payment of interest and principal on the city's general long-term debt.

The City reports the following major proprietary fund:

The Water and Sewer Funds accounts for the operation and maintenance of the City's sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Avoca maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. As of June 30, 2014, disbursements exceed amounts budgeted in the capital projects function and business type activities function.

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(1) Summary of Significant Accounting Policies (Continued)

D. Property Tax Calendar

Property taxes become an enforceable lien on property when they are certified to the County Board of Supervisors on or before March 15. Taxes are payable on September 30 and March 31, payment later than this results in a penalty. The County bills and collects property taxes and remits them to the City as collected on a monthly basis.

(2) Cash and Pooled Investments

The City's deposits in bank at June 30, 2014, were covered entirely by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash on hand, cash in bank and certificates of deposit, held at two local institutions and two managed accounts in the City's name totaled \$2,234,007 as of June 30, 2014.

Interest Rate Risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(3) Bonds and Notes Payable

Annual debt service requirements to maturity of general obligation bonds and notes are as follows:

Year Ending June 30,	General Obligation Bonds and Notes			
	Principal	Interest	Principal	Interest
2015	\$ 1,440,307	\$ 81,860	\$ 151,085	\$ 51,666
2016	201,679	47,889	143,629	62,097
2017	200,973	40,424	145,555	57,791
2018	170,178	32,694	147,534	53,152
2019	175,178	26,503	154,563	48,368
2020	103,754	21,196	81,647	44,859
2021	90,000	17,385	83,786	42,720
2022 & after	300,000	15,575	1,481,862	356,561
Total	\$ 2,682,069	\$ 283,526	\$ 2,389,661	\$ 717,214

The Code of Iowa requires that principal and interest on general obligation bonds and notes be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$4.3 million which was not exceeded during the year ended June 30, 2014.

General Obligation Corporate Purpose and Refunding Bond, May, 2009

On May 1, 2009, the City issued bonds to finance water projects and to refund a prior bond issue. The \$1,450,000 bonds bear interest ranging from 1.75% to 4.60%, requires semiannual installments of interest and annual retirement of bonds (ranging from \$75,000 to \$110,000 annually), and matures June 1, 2024.

General Obligation Fire Equipment Note, 2009

On January 15, 2009, the City financed the purchase of fire equipment with a local bank. The \$160,000 note bears interest at 5.00%, requires annual installments of \$36,959 and matured on June 1, 2014.

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(3) Bonds and Notes Payable (Continued)

General Obligation Ambulance Vehicle Note, 2012

On April 23, 2012, the City financed the purchase of an ambulance vehicle with a local bank. The \$175,000 note bears interest at 5.00%, requires semiannual installments of \$39,866, and matures July 1, 2017.

General Obligation School Area Street and Storm Sewer Project Note, 2012

On January 20, 2012, the City entered into two loan agreements with a local bank for the School Area Street and Storm Sewer Project. The two notes of \$250,000 each bears interest of 3.20 % and 3.26% and each loan requires annual principal payments of \$35,714, plus applicable interest semiannually and both loans mature December 1, 2018.

General Obligation Side Walk Repair Fund Project Note, 2012

On February 23, 2012, the City entered into a loan agreement with a local bank for the Side Walk Repair Project. The \$150,000 note bears interest of 3.42 % and requires annual principal payments of \$18,750, plus applicable interest semiannually and matures December 1, 2019

General Obligation Corporate Purpose Revolving Note, 2012

On August 27, 2012, the City entered into a revolving loan agreement with a local bank for use in short-term funding of City projects awaiting permanent financing. The note is for \$1,500,000 and bears interest of 3.25% on the amount borrowed. The payments of principal and interest are periodic with the unpaid balance due August 27, 2017.

General Obligation Corporate Purpose Revolving Note, 2014

During 2014, the City entered into a revolving loan agreement with a local bank for short- term funding for City sidewalk improvements and bears an interest rate of 4.50%, due in full on June 1, 2015.

Water Revenue Bond, 2010

On June 1, 2010, the City financed the water improvement capital project. The \$600,000 note bears interest ranging from 2.00% to 3.8% and matures June 1, 2019.

Storm Water Revenue USDA Rural Development Note, Series 2010

On December 30, 2010, the City financed the storm water improvement capital project. The \$412,000 note bears interest of 3.00% and requires annual payments of principal and interest of \$27,695 and matures December 1, 2030.

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(3) Bonds and Notes Payable (Continued)

Sanitary Sewer Revenue USDA Rural Development Note, Series 2011

On August 2, 2011, the City entered into an agreement with USDA for the Sanitary Sewer System improvement capital project. The total note is for \$1,767,000 and bears interest of 2.50% and requires annual principal and interest payments of \$98,811 and matures in June of 2037.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2014 was \$42,078, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick time termination payments payable to employees at June 30, 2014, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount June 30, 2014
Compensation time	\$ 930
Vacation	14,139
Sick time	38,175
	<u>\$ 53,244</u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

CITY OF AVOCA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,499 during the year ended June 30, 2014. The City had transactions between the City and relatives of appointed City board members totaling \$231,829. Of this total, \$50,377 was from awarded contracts through competitive bidding.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014, is as follows:

Transfer to	Transfer from	Amount
General	Urban Renewal	\$ 179,534
General	Library Trust	4,662
General	Local Option	193,060
General	Road Use	254,567
General	Water	75,000
Local Option	Urban Renewal	96,530
Debt Service	Sewer	84,675
Debt Service	Urban Renewal	260,957
Debt Service	Water	97,982
Capital Projects	Urban Renewal	375,000
Capital Projects	Local Option	381
Capital Projects	Road Use	8,130
Capital Projects	Sewer	140,645
Employee Benefit	Sewer	75,000
Urban Renewal	General	96,530
General	General	151,262
Total		\$ <u>2,093,915</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Risk Management

The City is exposed to various risks of loss related to torts; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks have not exceeded commercial insurance coverage for 2014.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF AVOCA

**BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 419,328	\$ -0-
Tax increment financing	934,605	-0-
Other city tax	409,885	-0-
Licenses and permits	14,659	-0-
Use of money and permits	14,758	-0-
Intergovernmental	34,976	-0-
Charges for services	638,415	659,047
Special assessments	2,350	-0-
Miscellaneous	9,324	-0-
Total receipts	<u>2,478,300</u>	<u>659,047</u>
Disbursements:		
Public safety	311,429	-0-
Public works	621,825	-0-
Health and social services	-0-	-0-
Culture and recreation	699,180	-0-
Community and economic development	616,854	-0-
General government	337,356	-0-
Debt service	520,533	-0-
Capital projects	1,420,588	-0-
Business type	-0-	374,195
Total disbursements	<u>4,527,765</u>	<u>374,195</u>
Excess (deficiency) of receipts over (under) disbursements	(2,049,465)	284,852
Other financing sources, net	<u>2,018,145</u>	<u>(469,110)</u>
Excess (deficiency) of receipts and other financing sources	(31,320)	(184,258)
Balance beginning of year	<u>1,790,206</u>	<u>659,379</u>
Balance end of year	\$ <u>1,758,886</u>	\$ <u>475,121</u>

See Accompanying Independent Auditor's Report.

Total		Budgeted Amounts		Final to Total Variance
		Original	Final	
\$	419,328	\$ 407,014	\$ 407,014	\$ 12,314
	934,605	905,000	905,000	29,605
	409,885	288,303	288,303	121,582
	14,659	24,700	24,700	(10,041)
	14,758	42,238	42,238	(27,480)
	34,976	340,659	340,659	(305,683)
	1,297,462	1,345,799	1,293,421	4,041
	2,350	40,000	40,000	(37,650)
	9,324	45,000	45,000	(35,676)
	<u>3,137,347</u>	<u>3,438,713</u>	<u>3,386,335</u>	<u>(248,988)</u>
	311,429	333,554	362,273	50,844
	621,825	576,031	660,531	38,706
	-0-	6,250	6,250	6,250
	699,180	764,776	796,012	96,832
	616,854	466,820	880,600	263,746
	337,356	316,004	348,004	10,648
	520,533	753,660	753,660	233,127
	1,420,588	990,434	1,191,348	(229,240)
	374,195	243,396	325,257	(48,938)
	<u>4,901,960</u>	<u>4,450,925</u>	<u>5,323,935</u>	<u>421,975</u>
	(1,764,613)	(1,012,212)	(1,937,600)	172,987
	<u>1,549,035</u>	<u>818,942</u>	<u>1,495,592</u>	<u>53,443</u>
	(215,578)	(193,270)	(442,008)	226,430
	<u>2,449,585</u>	<u>2,449,585</u>	<u>2,449,585</u>	<u>-0-</u>
\$	<u>2,234,007</u>	\$ <u>2,256,315</u>	\$ <u>2,007,577</u>	\$ <u>226,430</u>

CITY OF AVOCA

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION -
BUDGETARY REPORTING**

JUNE 30, 2014

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted receipts by \$436,732 and disbursements by \$488,942. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the capital projects function and business type activities.

OTHER SUPPLEMENTARY INFORMATION

CITY OF AVOCA

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2014

	Special Revenue			
	Hotel Motel	Employee Benefits	Road Use	Local Option
Receipts:				
Property tax	\$ -0-	\$ 127,337	\$ -0-	\$ -0-
Use of money	-0-	-0-	-0-	-0-
Intergovernmental	66,238	-0-	150,600	193,047
Miscellaneous	-0-	-0-	-0-	-0-
Total receipts	<u>66,238</u>	<u>127,337</u>	<u>150,600</u>	<u>193,047</u>
Disbursements:				
Operating:	-0-	-0-	-0-	-0-
Public safety	-0-	-0-	-0-	-0-
Public works	-0-	-0-	-0-	-0-
Culture and recreation	-0-	-0-	-0-	-0-
General government	-0-	-0-	-0-	-0-
Capital projects	-0-	-0-	-0-	-0-
Total disbursements	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Excess (deficiency) of receipts over (under) disbursements	66,238	127,337	150,600	193,047
Other financing sources (uses):	-0-	-0-	-0-	-0-
Note Proceeds	-0-	-0-	-0-	-0-
Operating transfers in	-0-	75,000	-0-	96,530
Operating transfers out	(66,209)	-0-	(262,697)	(307,611)
Net financing sources (uses)	<u>(66,209)</u>	<u>75,000</u>	<u>(262,697)</u>	<u>(211,081)</u>
Net change in cash balances	29	202,337	(112,097)	(18,034)
Cash balances beginning of year	<u>-0-</u>	<u>-0-</u>	<u>210,888</u>	<u>202,404</u>
Cash balances end year	\$ <u>29</u>	\$ <u>202,337</u>	\$ <u>98,791</u>	\$ <u>184,370</u>
Cash Basis Fund Balances				
Restricted for other purposes	\$ 29	\$ 202,337	\$ 98,791	\$ 184,370
Total cash basis fund balances	\$ <u>29</u>	\$ <u>202,337</u>	\$ <u>98,791</u>	\$ <u>184,370</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 1

Special Revenue			Permanent			Total
Library Trust	Veterans Memorial	Capital Projects	Perpetual Care	Cemetery Trust		
\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 127,337	
7,042	-0-	-0-	456	819	8,317	
-0-	-0-	31,976	-0-	-0-	441,861	
1,710	-0-	3,000	1,189	-0-	5,899	
8,752	-0-	34,976	1,645	819	583,414	
-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	669,867	-0-	-0-	669,867	
-0-	-0-	669,867	-0-	-0-	669,867	
8,752	-0-	(634,891)	1,645	819	(86,453)	
-0-	-0-	-0-	-0-	-0-	-0-	
-0-	-0-	386,263	-0-	-0-	386,263	
4,662	-0-	604,549	-0-	-0-	780,741	
(9,324)	-0-	-0-	-0-	-0-	(645,841)	
(4,662)	-0-	990,812	-0-	-0-	521,163	
4,090	-0-	355,921	1,645	819	434,710	
562,701	1,935	11,712	43,749	74,509	1,107,898	
\$ 566,791	\$ 1,935	\$ 367,633	\$ 45,394	\$ 75,328	\$ 1,542,608	
\$ 566,791	\$ 1,935	\$ 367,633	\$ 45,394	\$ 75,328	\$ 1,542,608	
\$ 566,791	\$ 1,935	\$ 367,633	\$ 45,394	\$ 75,328	\$ 1,542,608	

CITY OF AVOCA
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2014

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds and notes:			
Refunding Bonds	December 1, 2009	1.75% to 4.6%	\$ 1,450,000
Fire Equipment Note	January 15, 2009	5.00%	\$ 160,000
Ambulance Note	April 23, 2012	4.50%	\$ 175,000
Revolving Note-Capital Projects	August 27, 2012	3.25%	\$ 1,500,000
School Area Streets & Storm Sewer	January 20, 2012	3.2% & 3.26%	\$ 500,000
Sidewalk Improvement	January 20, 2012	3.42%	\$ 150,000
Revolving Note	March 1, 2014	4.50%	\$ 155,000
Revenue Bonds and Notes:			
Water Bond	June 1, 2010	2.00% to 3.8%	\$ 600,000
Water Note	December 30, 2010	3.00%	\$ 412,000
Storm Sewer Note	August 2, 2011	2.50%	\$ 1,767,000

See Accompanying Independent Auditor's Report.

SCHEDULE 2

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 995,000	\$ -0-	\$ 125,000	\$ 870,000	\$ 40,067	\$ 3,000
35,306	-0-	35,306	-0-	1,746	-0-
135,167	-0-	33,883	101,284	5,983	350
118,660	966,706	-0-	1,085,366	24,609	2,706
428,572	-0-	71,429	357,143	12,869	977
131,250	-0-	18,750	112,500	4,227	326
-0-	155,000	-0-	155,000	1,586	535
415,000	-0-	65,000	350,000	14,170	1,018
379,858	-0-	16,269	363,589	11,426	912
1,460,932	215,139	-0-	1,676,071	37,112	13,866
<u>\$ 4,099,745</u>	<u>\$ 1,336,845</u>	<u>\$ 365,637</u>	<u>\$ 5,070,953</u>	<u>\$ 153,795</u>	<u>\$ 23,690</u>

CITY OF AVOCA
DEBT MATURITIES

JUNE 30, 2014

Year Ending June 30,	General Obligation Issued December 1, 2009		General Obligation March 1, 2014		Ambulance Note Issued April 23, 2012	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2015	3.25%	\$ 75,000	4.5%	\$ 155,000	4.5%	\$ 34,763
2016	3.50%	75,000	--	-0-	4.5%	36,501
2017	3.50%	80,000	--	-0-	4.5%	30,020
2018	4.00%	80,000	--	-0-	--	-0-
2019	4.00%	85,000	--	-0-	--	-0-
2020	4.10%	85,000	--	-0-	--	-0-
2021	4.10%	90,000	--	-0-	--	-0-
2022 & After	4.30 - 4.60%	300,000	--	-0-	--	-0-
Total		\$ <u>870,000</u>		\$ <u>155,000</u>		\$ <u>101,284</u>

Year Ending June 30,	General Obligation- Revolving Issued August 27, 2012		General Obligation- School Area Issued January 20, 2012		General Obligation- Sidewalk Improvement Issued January 20, 2012	
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount
2015	3.25%	\$ 1,085,366	3.20-3.26%	\$ 71,429	3.42%	18,750
2016	--	-0-	3.20-3.26%	71,429	3.42%	18,750
2017	--	-0-	3.20-3.26%	71,429	3.42%	18,750
2018	--	-0-	3.20-3.26%	71,428	3.42%	18,750
2019	--	-0-	3.20-3.26%	71,428	3.42%	18,750
2020	--	-0-		-0-	3.42%	18,750
2021	--	-0-		-0-	--	-0-
2022	--	-0-		-0-	--	-0-
Total		\$ <u>1,085,366</u>		\$ <u>357,143</u>		<u>112,500</u>

See Accompanying Independent Auditor's Report.

SCHEDULE 3

Year Ending June 30,	Water Revenue Bond Issued June 1, 2010		Water Revenue Note Issued December 30, 2012		Storm Sewer Note Issued August 2, 2011		Total
	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	
2015	3.00%	\$ 65,000	3.00%	\$ 16,757	2.5%	\$ 69,328	\$ 1,591,393
2016	3.00%	70,000	3.00%	17,260	2.5%	56,369	345,309
2017	3.00%	70,000	3.00%	17,777	2.5%	57,778	345,754
2018	3.80%	70,000	3.00%	18,311	2.5%	59,223	317,712
2019	3.80%	75,000	3.00%	18,860	2.5%	60,703	329,741
2020	3.80%	-0-	3.00%	19,426	2.5%	62,221	185,397
2021	--	-0-	3.00%	20,009	2.5%	63,777	173,786
2021 & After	--	-0-	3.00%	235,189	2.5%	1,246,672	1,781,861
Total		\$ <u>350,000</u>		\$ <u>363,589</u>		\$ <u>1,676,071</u>	\$ <u>5,070,953</u>

CITY OF AVOCA

SCHEDULE 4

**SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS**

FOR THE LAST FOUR YEARS

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Receipts:				
Property taxes	\$ 419,328	\$ 408,805	\$ 1,135,917	\$ 720,334
Tax increment financing	934,605	877,401	-0-	418,980
Other city taxes	409,885	-0-	248,030	271,985
License and permits	14,659	14,557	10,593	13,632
Use of money and property	14,758	71,191	32,936	26,425
Intergovernmental	34,976	1,380,781	432,304	1,040,750
Charges for service	1,297,462	378,513	1,147,298	937,025
Special assessments	2,350	1,881	9,315	910
Miscellaneous	<u>9,324</u>	<u>283,891</u>	<u>180,868</u>	<u>94,946</u>
Total	\$ <u>3,137,347</u>	\$ <u>3,417,020</u>	\$ <u>3,197,261</u>	\$ <u>3,524,987</u>
Disbursements:				
Operating:				
Public safety	\$ 311,429	\$ 202,158	\$ 393,099	\$ 187,990
Public works	621,825	710,404	594,519	300,591
Health and social services	-0-	-0-	6,071	-0-
Culture and recreation	699,180	738,872	670,305	619,520
Comm and economic dev	616,854	483,135	407,012	676,364
General government	337,356	277,389	247,629	235,642
Debt service	520,533	2,085,936	420,416	274,630
Capital projects	1,420,588	2,859,163	1,644,889	1,046,835
Business type	<u>374,195</u>	<u>245,322</u>	<u>459,128</u>	<u>1,277,359</u>
Total	\$ <u>4,901,960</u>	\$ <u>7,602,379</u>	\$ <u>4,843,068</u>	\$ <u>4,618,931</u>

See accompanying independent auditor's report.

**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

MUXFELDT ASSOCIATES, CPA, P.C.

Certified Public Accountant

January 8, 2015

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARD

Lonnie G. Muxfeldt
Certified Public
Accountant

Harlan Office:

2309 B Chatburn Ave.
P.O. Box 551
Harlan, IA 51537-0551

Ph. (712) 755-3366
Fax (712) 755-3343

Avoca Office:

305 W. High Street
P.O. Box 609
Avoca, IA 51521-0609

Ph. (712) 343-2379
Fax (712) 343-5012

www.muxfeldt-cpa.com
firm@muxfeldt-cpa.com

Licensed In:

Iowa
Missouri

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Avoca, Iowa as of and for the year ended June 30, 2014, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated January 8 2015. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with another comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Avoca's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Avoca's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, I identified a certain deficiency in internal control over financial reporting I consider to be a material weakness.

Continued . . .

January 8, 2015

Page Two

To the Honorable Mayor and
Members of the City Council:

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Avoca's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiency described in Part I of the accompanying Schedule of Findings as items I-A-13 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Avoca's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, I noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Continued . . .

January 8, 2015

Page Three

To the Honorable Mayor and
Members of the City Council

The City of Avoca's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City of Avoca's responses, I did not audit the City of Avoca's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Avoca and other parties to whom the City of Avoca may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Avoca during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Musplott Associates, CPA, P.C.

**CITY OF AVOCA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES

I-A-14 Segregation of Duties

Comment - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. For example, the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all performed by the same person.

Recommendation - I realize that with one full time city administrator, full time city clerk, and a part time office clerk, a proper segregation of duties is challenging. However, City Council should monitor control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Required Statutory Reporting:

II-A-14 Certified Budget - Disbursements during the year ended June 30, 2014, exceeded the amounts budgeted in the capital projects function, and business type activities. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be monitored and amended timely in the future, if applicable.

Conclusion - Response accepted.

**CITY OF AVOCA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part II: Other Findings Related to Required Statutory Reporting (Continued):

II-B-14 Questionable Disbursements - I noted no disbursements for parties, banquets or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-C-14 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-14 Business Transactions - Business transactions between the City and City officials or employees for the year ended June 30, 2014 are as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Polychronic, owned by City Manager Clint Fichter	Software Access	\$ 2,499
J. Olesen, Park Board Owner of Olesen Chevy-Olds, Inc.	Oil Change	179
Rodney Osbahr, Park Board Owner of rod Osbahr Excavation, L.L.C.	Lot Grading	2,270
James Johnson, Planning & Zoning Owner of What's Your Signs Graphics	Signage	2,301
McCarthy Trenching, relative of Urban Renewal board member Robert McCarthy	Trenching	171,496
McCarthy landscape & Design, relative of Urban Renewal board member Robert McCarthy	Landscaping	11,796
Mikel Yates, son of Planning & Zoning Board member Kora yates	Sidewalk Work	41,288
		<u>\$ 231,829</u>

**CITY OF AVOCA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Urban renewal and Library board members may represent a conflict of interest since total transactions with the individual were greater than \$2,500 during the fiscal year.

The transactions involving construction contracts do not appear to represent a conflict of interest since they were entered into through competitive bidding.

Recommendation - The city should consult legal council to determine a course of action to resolve the issue.

Response - We will do this.

Conclusion - Response accepted.

II-E-14 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-14 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

There was one instance where the minutes were not published within the fifteen days after the meeting as per Chapter 372.13 (6) of the Code of Iowa.

There were three instances where the incorrect code section was reported in the minutes for closed sessions.

Recommendation - The clerk should make sure that the minutes are published within the fifteen days as required by Chapter 372.13 (6) of the Code of Iowa and that the correct code section is reported for closed sessions.

Response - We will adhere to the reporting requirements as required the Code of Iowa in the future.

Conclusion - Response accepted.

II-G-14 Deposits and Investments - I noted one instance of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

Recommendation - The city should adhere to the written investment policy as designated by the Council.

Response - We will adhere to the policy as written and will amend it the future.

Conclusion - Response accepted.

**CITY OF AVOCA
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2014**

Part II: Other Findings Related to Required Statutory Reporting (Continued):

II-H-14 Unsubstantiated Disbursements - It was noted that not all debit/credit card charges for fuel were substantiated.

Recommendation - Disbursements should be substantiated with appropriate documentation.

Response - Debit/credit card charges will be appropriately substantiated in the future.

Conclusion - Response accepted.

CITY OF AVOCA
AVOCA, IOWA 51521
NEWS RELEASE

Muxfeldt Associates, CPA, P.C., 2309 B Chatburn Avenue, Harlan, Iowa today released an audit report on the City of Avoca, Iowa.

The City's receipts totaled \$4,686,449 for the year ended June 30, 2014, a ten percent decrease from the prior year, The receipts included \$419,328 from property tax, \$934,605 from tax incremental financing, \$1,297,462 from charges for services, \$911,707 from other sources, and \$1,126,347 from note proceeds.

Disbursements for the year totaled \$4,901,960, a thirty - five percent decrease from the prior year, and included \$1,420,588 for capital projects, \$520,533 for debt service, and \$2,586,644 for general government. Also, disbursements for business-type activities totaled \$374,195.

A copy of the audit report is available for review in the City Clerk's office, in the office of the Auditor of State and on the Auditor of State's web site <http://auditor.iowa.gov/reports/reports.htm>.

